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**Hong Kong, the United States, and Business Concerns**

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## Hong Kong, the United States, and Business Concerns<sup>1</sup>

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### Abstract

This article examines the essence of America's Hong Kong policy in the 1990s, which lay in the *United States-Hong Kong Policy Act of 1992*. In order to do so, it analyzes the contents of the Act, the background, the reactions, and the aftermath. It argues that there were similarities between the Act and the two Open Door Notes (1899-1900), in terms of their motives and ultimate objectives. While the Act appeared almost a century after the Open Door Notes, the United States on both occasions reacted to the same concerns. In the 1890s, as well as in the 1990s, the country aimed to promote America's economic interests in East Asia, and to compete with other governments. In 1992, the United States was well aware of the booming China market, the economic opportunities in Asia, and the role of Hong Kong as a communication center in the region.

The preservation of the status quo became the motive in outlining the Hong Kong policy of the United States. Thus, the development of American interests was the fundamental objective of the 1992 Act. This was not unlike the fear of losing out in the China scramble in the late nineteenth century that drove Washington to draft and promote the Open Door Notes. In the 1890s, Americans just began to recognize the importance of the China market. In the 1990s, they already became the vested interests.

### 1. Introduction

Hong Kong was seldom a matter of concern for the United States. Indeed, the once British colony caught world attention with its reversion to Chinese sovereignty in 1997. Otherwise, it was famous for its international port facilities, finance and service sectors, streets of shops, food, and efficiency. Until the late 1970s, few questioned the outmoded colonial status of Hong Kong. As long as it continued to prosper and enjoy some basic freedoms, it was able to maintain its precarious position. Even when its future was in question, the subject reflected solely the anxieties of the British, who took the initiative in asking about the imminent expiration of the 1997 lease. Hong Kong consists of the Hong Kong Island, Kowloon Peninsula, and New Territories. The British obtained the island and the peninsula through the 1842 Nanjing Treaty and the 1860 Beijing Convention respectively. As for the New Territories, they secured the

right to administer in accordance with a ninety-nine-year lease, which ended in 1997. The British first raised the issue of Hong Kong's post-1997 status to Beijing in 1979. The following years witnessed the Sino-British negotiations, and finally the signing of the 1984 Joint Declaration, which stated the return of Hong Kong to China. During the transition from 1984 to 1997, Hong Kong prepared itself for the historic handover. It experienced a democratization process that was unprecedented in its history. London and Beijing also met to discuss its future constitution, new airport, and other important matters. In the course, Hong Kong aroused the interest of the United States, as it became a subject of congressional hearings. During the transition, Congress passed an act to establish the United States' Hong Kong policy and other matters.<sup>2</sup> The short title was the *United States-Hong Kong Policy Act of 1992*.

This article examines the essence of America's Hong Kong policy in the 1990s, which lay in the *United States-Hong Kong Policy Act of 1992*. In order to do so, it analyzes the contents of the Act, the background, the reactions, and the aftermath. It argues that there were similarities between the Act and the two Open Door Notes (1899-1900), in terms of their motives and ultimate objectives. While the Act appeared almost a century after the Open Door Notes, the United States on both occasions reacted to the same concerns. In the 1890s, as well as in the 1990s, the country aimed to promote America's economic interests in East Asia, and to compete with other governments. In 1992, the United States was well aware of the booming China market, the economic opportunities in Asia, and the role of Hong Kong as a communication center in the region. A British colony, Hong Kong enjoyed many trading benefits with the United States. Nevertheless, its return to China posed the danger of Hong Kong losing its advantages in the bilateral relationship with the United States. The continuation of its favorable status was a prerequisite of protecting America's Asian enterprises. The preservation of the status quo became the motive in outlining the Hong Kong policy of the United States. Thus, the development of American interests was the fundamental objective of the 1992 Act. This was not unlike the fear of losing out in the China scramble in the late nineteenth century that drove Washington to draft and promote the Open Door Notes. In the 1890s,

Americans just began to recognize the importance of the China market. In the 1990s, they already became the vested interests.

Economic considerations explained the appearance of both the Act and the Notes, and dictated the manner of execution of the policies. Nevertheless, political rhetoric characterized their pronouncement. In the 1990s, the United States stated that it respected the Sino-British Joint Declaration, which guaranteed the future of Hong Kong. At the same time, it raised the concerns for the maintenance of the freedoms of Hong Kong, the local human rights situation, and the progress of democratization. A century ago, the Open Door Notes upheld the Chinese political, administrative and territorial integrity. Washington circulated the Notes among nations, which were willing to endorse the statement of American position. Nevertheless, the United States would not back up its policy by force. For half a century, the Notes remained a mere assertion of grand principles. Nations paid lip service to the American documents, but acted differently most of the time. The United States made a declaration of fair competition in China. Nevertheless, it did not have the will or the power to implement its policy. In the 1990s, circumstances were different. The British took the lead in raising the concern for Hong Kong's political future. In this case, the United States did not assume a leading role. Instead, it was an observer, and was willing to uphold the Sino-British Joint Declaration. The political stability of Hong Kong became the formal obligations of the London and Beijing governments. While the 1992 Act acknowledged the special status of Hong Kong after 1997, this was also the objective of the Joint Declaration. As a bystander who recently took interest in the Hong Kong issue, the United States enjoyed flexibility in its actions. While the Open Door policy was doomed to failure, the Act outlined a realistic position. This article concludes with the following observation: while the United States had little liability in Hong Kong matters, this fact actually accounted for its favorable position. It should refrain from unattainable goals, as in the days of the Open Door policy. In addition, it should beware of the dangers of political rhetoric.

## **2. *The United States-Hong Kong Policy Act of 1992***

The Act recognized an established fact, namely the existence of the 1984 Sino-British Joint Declaration. At its very beginning, the Act acknowledged the Joint Declaration and the decision of the Chinese re-exercise of sovereignty over Hong Kong on July 1, 1997.<sup>3</sup> As a special administrative region thereafter, the United States understood that Hong Kong would enjoy a high degree of autonomy except in areas of defense and foreign relations. Under the policy of “one country, two systems,” the local social, economic, legal structures would continue at least for fifty years. At the same time, the United States believed that the Joint Declaration had promised democracy and basic liberties. Section 2 states: “The legislature of the Hong Kong Special Administrative Region will be constituted by elections, and the provisions of the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, as applied to Hong Kong, shall remain in force.”<sup>4</sup> On such basis, the United States supported the implementation of the Joint Declaration.

The Act revealed the three concerns of the United States. They were in a descending order: economic factors, democratization, and human rights. Hong Kong had established a position in the regional economy, and its economic relations with the United States. Thus, its stability and prosperity were of vital American interest. Having mentioned this, however, the Act stated that the “support for democratization” had been essential to American foreign policy. Rhetorical was the assertion that such principle was also applicable to the Hong Kong situation. So was saying that the human rights of the local population were “of great importance to the United States.”<sup>5</sup>

Despite the proclamation of political ideals, the Act outlined “the policy of the United States,” which expressed exclusively economic considerations. The United States was concerned about its relations with Hong Kong. It sought to maintain the existing ties and agreements with the latter in areas of economics, trade, finance, monetary relations, and the aviation, shipping, communications, and tourist industries. At the same time, it continued to encourage the activities of official and semi-official Hong Kong institutions in the United States. They included the Hong Kong Economic

& Trade Office, the Office of the Hong Kong Trade Development Council, and the Hong Kong Tourist Association. In the international arena, the United States welcomed the continued participation of Hong Kong in “multilateral conferences, agreements, and organizations.” It supported Hong Kong as “a separate customs territory,” and a member of the General Agreement on Tariffs and Trade (GATT). In other words, the United States expected the continuation of Hong Kong’s existing status after the handover.<sup>6</sup>

Moreover, the United States was eager to expand its commercial and trade relations with Hong Kong. It regarded the latter as “a separate territory in economic and trade matters, such as import quotas and certificates of origin.”<sup>7</sup> Such status would continue after June 30, 1997. The Act aimed to facilitate America’s relations with Hong Kong by acknowledging the special status of the latter after the Chinese takeover. The following quotation stated the fundamental objective. The Act wrote: “The United States should continue to treat Hong Kong as a territory which is fully autonomous from the United Kingdom and, after June 30, 1997, should treat Hong Kong as a territory which is *fully autonomous from the People’s Republic of China with respect to economic and trade matters.*”<sup>8</sup> After the handover, Hong Kong still enjoyed the “most-favored-nation status” in selling products to the United States. In addition, Hong Kong continued to have access to “sensitive technologies” under the management of the Coordinating Committee for Multilateral Export Controls (COCOM).<sup>9</sup> According to the United States, the recovery of Chinese sovereignty over Hong Kong would not affect the existing commercial and trading relationship.

The Act was a declaration of America’s intention to preserve the status quo of Hong Kong. It stated that American laws applicable to Hong Kong remained effective after June 30, 1997. So were the international agreements between the United States and Hong Kong, and were those between the United States and the United Kingdom and applied to Hong Kong.<sup>10</sup> Only when the President considered Hong Kong “not sufficiently autonomous to justify treatment under a particular law of the United States” would he issue an executive order, and suspend the application of that law to the territory.<sup>11</sup>

### **3. The Background to the *United States-Hong Kong Policy Act of 1992***

#### *3.1. The Senate Subcommittee Hearing of April 2, 1992*

In 1992, the Senate and the House of Representatives held a number of hearings before the passing of the Act. In April, the Subcommittee on East Asian and Pacific Affairs, of the Committee on Foreign Relations of the Senate, discussed about Hong Kong matters. The Subcommittee explained its objective as to examine Hong Kong's reversion to China and the implications that had for American policy.<sup>12</sup> It intended to review the existing situation of the territory, and to outline the expectations for the future. At the beginning, the Subcommittee recognized the impressive economic performance of Hong Kong and the local democratization progress. The hearing was "historic" as the Subcommittee for the first time talked about "U.S. policy toward Hong Kong as a separate and distinct issue."<sup>13</sup> Previously, it had only considered Hong Kong in the light of Sino-American relations. The hearing then represented a break from the past. In addition, the hearing was "timely" as American interests in the territory had developed to an extent that the bilateral relationship required close attention.

The growing importance of the Hong Kong issue reflected the concern that American interests should stay intact after the handover. According to the Subcommittee, the spirit of the Act was that Hong Kong's status in United States law would not change as a result of the Chinese takeover. The Act received the support of twenty senators and "a broad coalition of business organizations, editorial boards, human rights groups, cultural and educational exchange associations, and policy think-tanks."<sup>14</sup> The objective was to ensure that the handover would not affect the bilateral ties between the United States and Hong Kong.

Richard Solomon, the Assistant Secretary of State for East Asian and Pacific Affairs, made a statement. He was a renowned Sinologist and had more in-depth knowledge of the Hong Kong situation. In terms of both economic development and political reform, he was hopeful of the territory. According to him, local confidence had recovered after the June 4 Incident of 1989. His optimism reflected another end of the spectrum, totally opposite to worries that Hong Kong would subject to the

totalitarian rule of a Communist regime. “Signs of prosperity are everywhere,” he said, “Hong Kong seems to be entering a new cycle of growth.”<sup>15</sup> Moreover, he was satisfied with the human rights condition. Hong Kong had just passed the bill of rights, and was considering the suitability of local laws. Solomon pointed out that the Hong Kong legislature for the first time accepted a number of elected seats in September 1991.

More importantly, Solomon alerted to the fact that Hong Kong was important to the modernization of China. According to him, “Hong Kong’s post-1997 fate will be a measure of China’s own reform efforts, and of its relationship to the international economic and political system.”<sup>16</sup> He emphasized the integration of the economies of Hong Kong and South China. Here, Solomon shared the excitement of China watchers, who looked favorably toward the future of this region. China attained outstanding achievements in its reform, and continued to benefit from the economic relationship with Hong Kong. He stated: “The economic integration of southern China with Hong Kong has been key to the remarkable success of the special economic zones adjacent to Hong Kong, and the Pearl River delta.”<sup>17</sup> Hong Kong was the center of the region, and took the lead in the economic advancement of the country as a whole. According to Solomon, “South China today is the most dynamic region of economic growth within the PRC [People’s Republic of China], and Hong Kong is clearly the engine of that growth.”<sup>18</sup> The development of Hong Kong affected that of the southern provinces, and the modernization of China. Thus, the prosperity of Hong Kong was the source of confidence for China. Solomon pointed to Deng Xiaoping’s visit to Guangdong and Shenzhen in January 1992, as “an endorsement” of the reform progress of the region. The economic growth of Hong Kong provided guarantees for the future of the territory.

At the same time, Solomon reminded the Subcommittee of America’s interests in Hong Kong. According to him, the United States invested more than \$7 billion in Hong Kong, and involved more than \$17 billion in trade with the latter. There were more than 900 American firms and more than 21,000 Americans in Hong Kong.<sup>19</sup> The United States was then Hong Kong’s largest market, while the latter was America’s fourteenth most important trade companion. Here, Solomon provided the

figures. American exports to Hong Kong were worth \$8.1 billion, and American imports from the territory totaled \$9.3 billion in 1991. As he stated, “each Hong Kong resident bought a staggering \$1,300 worth of U.S. products last year.”<sup>20</sup> In addition, American firms were competing for projects of the new airport and container terminal in Hong Kong. The American stake was huge, Solomon said, and so was the possible contribution of the United States to the future of Hong Kong.

It was in such context that Solomon supported “revising U.S. law to ensure that U.S. legal requirements enable the United States to continue to interact with Hong Kong after it becomes a special administrative region of the PRC in 1997.”<sup>21</sup> While Solomon spoke from his point of view, he actually revealed the spirit of the Act. In 1992, this was the reason for formulating an American policy toward Hong Kong. Since the United States had established a foothold in the territory, Americans were concerned that they could continue and expand their interests in post-1997 Hong Kong. If the United States had not decided on a policy in 1992, it would lose Hong Kong as an important trading partner after June 30, 1997. There was a desperate need for the United States to ensure that such scenario would not happen.

The bilateral relationship between the United States and Hong Kong operated on three levels. In the Subcommittee hearing, Solomon explained the situation. The “extensive commercial, cultural, transportation, communication and other relations” were possible because American laws then treated Hong Kong as part of British territory. However, the United States considered Hong Kong in its own right when granting the latter the most-favored-nation status. Occasionally, the United States regarded Hong Kong as “a separate territory” in matters of immigration and textile quotas. In sum, “Hong Kong receives most of the advantages under U.S. law of being part of the United Kingdom, with a few advantageous modifications that give effect to the territory’s economic autonomy and cultural distinctiveness from the U.K.”<sup>22</sup> This also meant that Hong Kong did not suffer from the “U.S. domestic legal constraints,” which had restricted Sino-American relations in areas of commerce, culture and others. Problem arose after June 30, 1997, as Hong Kong would become part of China. According to Solomon, the statutes would call for the “restrictions and disabilities” that would be a threat to Hong Kong’s supposed independence from China.<sup>23</sup> In

stating America's Hong Kong policy, the Act "establishes clearly the authority of the United States Government to treat Hong Kong, where appropriate, as a non-sovereign entity which is distinct from the PRC for purposes of U.S. domestic law."<sup>24</sup> It "requires the United States to treat Hong Kong, after 1997, as a separate territory much in the same manner it treats Hong Kong before and on June 30, 1997."<sup>25</sup> Thus, the Act ensured the continuation of the existing bilateral relationship between the United States and Hong Kong. It further provided the basis for the expansion of American interests in the territory.

Americans were concerned about their interests in Hong Kong. At the same time, they were hopeful of the growth of "Greater China," and the opportunities that arose. In the Subcommittee hearing, David M. Lampton, who was President of the National Committee on U.S.-China Relations, emphasized the significant role of Hong Kong in the Greater China economy.<sup>26</sup> He had some observations. First, he believed that Hong Kong had greater influence on China than the latter had on the territory. As he said, Hong Kong enterprises employed three million workers in China, and were "a critical agent of change" in the mainland. Hong Kong companies expanded into South China, and installed rapid changes in the economy and society of the mainland. Second, Lampton argued that the interdependency of the mainland and Hong Kong economies ensured "the security" of the territory. "It is hard to imagine that the PRC would intentionally sacrifice rapidly-growing economic interests in Hong Kong," he said.<sup>27</sup> Here, he was responding to the worry that Hong Kong would suffer from political disasters. He continued: "While we cannot exclude the possibility of policies or developments in China that would undermine those interests (e.g. events such as Tiananmen and its aftermath are indeed sobering), the best guarantor of Hong Kong's future is its strong economic utility to the PRC."<sup>28</sup> Then, Lampton talked about the implications for the United States. He stated: "The third major American interest derives from the first two—namely that Hong Kong is a tremendous platform from which America can develop its economic and cultural ties, not only in 'Greater China,' but the East Asian region more broadly. Hong Kong's infrastructure, strategic location, and cultural ties throughout the region make it an indispensable hub."<sup>29</sup>

### 3.2. *The House Hearings of April 9 and May 7, 1992*

#### 3.2.1. *The Joint Hearing of April 9*

Between April and May 1992, the House of Representatives subcommittees held two hearings on “U.S. policy toward Hong Kong.” On April 9, the Subcommittees on Human Rights and International Organizations, Asian and Pacific Affairs, International Economic Policy and Trade, and International Operations held a joint hearing on America’s Hong Kong policy. They discussed the bill, if passed, the United States-Hong Kong Policy Act.

The record of April 9 included a written statement of William H. Overholt of the American Chamber of Commerce in Hong Kong. Representing the business interests, Overholt welcomed the support of the Sino-British Joint Declaration, which enabled the United States to continue its trade with Hong Kong on existing ground. Moreover, he agreed to a declaration of America’s policy toward Hong Kong. The Act, after being passed, set forth rules that recognized Hong Kong’s travel documents, various agreements with Hong Kong, and Hong Kong’s participation in international organizations.<sup>30</sup> According to him, they were significant to America’s interests in the territory. He asserted that Hong Kong was “the headquarters of American business in Asia.” The American Chamber of Commerce there was the largest American Chamber of Commerce outside the United States mainland. In addition, the American establishment in Hong Kong provided the basis for the future expansion in Asia. As he said, “Hong Kong is the location of 51% of all multinational corporations’ regional headquarters in Asia, and American firms constitute the largest group of such headquarters. The importance of this for our economic future is magnified by the fact that Asia is the fastest growing part of the world economy, and coastal China is the fastest growing part of Asia.”<sup>31</sup> In other words, the Act allowed the United States to capture the enormous opportunities in the rapidly growing Chinese and Asian markets.

The arguments of Overholt found support from Senator Mitch McConnell of Kentucky. More importantly, the latter pointed out that the United States should be ready to establish an independent policy toward Hong Kong. McConnell mentioned the recent debates on the extension of the most-favored-nation status to China. Hong Kong would not be dependent of the British after June 30, 1997. Since circumstances

changed, the United States should make known its intention to continue the existing most-favored-nation privileges of the territory after the handover. Moreover, the remarkable expansion of American interests in Hong Kong was a sufficient reason to justify the making of a separate policy. The Act would “reflect these developments.”<sup>32</sup> According to him, it was about time “that the U.S.-Hong Kong relationship be considered, and be considered independently of our larger U.S.-China policy.”<sup>33</sup> The Act aimed to “lead the international community in support of the autonomy promised Hong Kong under the Joint Declaration.”<sup>34</sup> He continued: “the U.S.-Hong Kong Policy Act, begins the process of establishing such a policy by spelling out for the first time a comprehensive, coherent approach to formalizing our relationship with Hong Kong.”<sup>35</sup>

Representative John Edward Potter of Illinois outlined the problems that would arise if the United States did not establish such policy. He said:

Current law does not protect U.S. interests in Hong Kong. Under current law, Hong Kong and China will be treated simply as one nation after 1997. All laws that apply to China will then apply to Hong Kong. All treaties will treat Hong Kong the same as they do China. Hong Kong will be under China’s immigration and trade quotas. For example, Mr. Chairman, the United States would not recognize Hong Kong passports or visas, as we do know. Dual use of technology could not flow to Hong Kong. I simply cite this example: supercomputers that are used by Hong Kong banks, could no longer be imported into Hong Kong, because, under present law, they cannot be imported into China.<sup>36</sup>

In addition, he warned of the danger imposed on American enterprises in the territory. He stated: “This would be a U.S. enforcement of one country-one system policy, that is abhorrent to the Joint Declaration and abhorrent to our relationships with Hong Kong. It would kill U.S. business interests. U.S. business in this region is centered in Hong Kong.”<sup>37</sup> He continued: “Hong Kong must remain distinct under our law. So we need to change our law to allow the United States to interact with Hong Kong in accordance with the Joint Declaration and to protect our own interests.”<sup>38</sup>

### 3.2.2. *The Joint Hearing of May 7*

In the Joint hearing of May 7, Solomon spoke again. He alerted the audience to the danger of the United States losing out to other nations if it did not establish a policy toward Hong Kong. He said:

After 1997, the world will continue to engage in economic relations with China through Hong Kong. By that time, mainland firms will have had more than 18 years of on-the-job training in how to do business the Hong Kong way. They will use Hong Kong as a base to increase their trade, investment, and financial interchange with the rest of the world just as foreign firms now use Hong Kong as a bridge to China.<sup>39</sup>

Here, Solomon raised the concern that the United States should play an active role in the vibrant Asian economies. Toward the end of the twentieth century, this was similar to the American determination to engage in the scramble for concessions in China a century ago.

### *3.3. The Markups of S. 1731 of July 22 and August 5, 1992*

#### *3.3.1. The Markup of S. 1731 of July 22*

On July 22, the House Committee on Foreign Affairs, as well as the Subcommittees on Human Rights and International Organizations, Asian and Pacific Affairs, and International Economic Policy and Trade, met to consider the United States-Hong Kong Policy Act of 1992. The Senate had already approved the Act, then referred to by the House as S. 1731.

According to Representative Stephen J. Solarz, who chaired the House Subcommittee on Asian and Pacific Affairs, the United States wanted to achieve certain objectives through the enactment of the Act. First, the Act would state clearly the American position regarding Hong Kong after the handover. Specific policies included those on “government representation, commerce, transportation, and cultural exchanges.”<sup>40</sup> Second, the Act would solve the problem of the applicability of existing laws to Hong Kong after June 30, 1997. As he said, “the bill constructs a bridge across the 1997 divide, so that, where appropriate, US laws that are currently being applied to Hong Kong may continue to apply after reversion, and international agreements to which the United States and Hong Kong are parties may continue in force.”<sup>41</sup>

Third, the Act would provide assurance that the United States was concerned about the well being of the local population. Solarz stated: “A change in the exercise of sovereignty over Hong Kong will in no way sever the family ties and emotional bonds that link the United States and Hong Kong.”<sup>42</sup> Of particular emphases were that “the human rights of the people of Hong Kong are protected, and the degree to which

they are permitted to govern themselves.”<sup>43</sup> While acknowledging the continuation of the autonomous status of the territory after the reversion to Chinese rule, Solarz stressed that the United States did not have any “hidden agenda.” On the one hand, the Act proposed certain American actions. On the other hand, it spelled out what the United States would not do. Most importantly, “it does not seek to split post-1997 Hong Kong from China.”<sup>44</sup> “The United States accepts the reversion of the territory to Chinese sovereignty,” Solarz asserted that to “suggest otherwise is purely paranoia.”<sup>45</sup> Since the United States had long established ties with the local people, the country should indicate specifically and in detail the manner in which such relationship would continue after the handover.

### 3.3.2. *The Markup of S. 1731 of August 5*

On August 5, the House Committee on Foreign Affairs met to consider S. 1731, to “establish the policy of the United States with respect to Hong Kong, and for other purposes.”<sup>46</sup> Again, Solarz raised his point: “Let me simply say that we have an enormous interest in the continued well-being of Hong Kong.”<sup>47</sup> American investments totaled over \$7 billion, American firms there numbered 900, and Americans were about 21,000. He continued, “the whole key to the economic future of China lies in Hong Kong, and I believe that this legislation will help to stabilize the situation in Hong Kong.”<sup>48</sup> It would be a source of confidence for the local people. At the same time, it would enable the United States to continue its present relationship with Hong Kong after 1997.

The written testimony of Perry Bechky of the Freedom House to the House Committee on Foreign Relations aptly summarized the arguments so far. A portion of his statement was:

United States-Hong Kong relations . . . do not make headlines— even when they make news at all. Washington generally treats Hong Kong as a footnote to its relations with China. This results from a failure of our policy-makers to appreciate Hong Kong’s importance— a fact known quite well by American business. Consider the facts:

- bilateral trade with Hong Kong (our eleventh largest trade partner) well exceeds trade with the People’s Republic, at over \$25 billion per year;
- the average Hong Kong person consumes over \$1,100 worth of American goods annually, one of the highest rates in the world;

- a very large portion of all Chinese trade goes through Hong Kong, which operates the busiest port in the world and which is about to expand its capabilities greatly as part of a major infrastructure development plan;

- over 900 U.S. companies operate in Hong Kong, including 250 which base their regional headquarters there;

- Hong Kong houses over \$7 billion in U.S. investments, and recent surveys indicate that most Americans plan to keep their investments in Hong Kong beyond 1997;

- Hong Kong serves as the primary conduit for U.S.-China business relations and promotes the economic, political and social liberalization of southern China; and

- Hong Kong features infrastructure, telecommunications, media, a legal system, and an English-speaking population unmatched in the region.<sup>49</sup>

#### **4. Reactions to the *United States-Hong Kong Policy Act of 1992***

The local media had been discussing about the Act even in 1991. The general impression was that the Act signified an important change in America's position toward Hong Kong. Moreover, the appearance of the Act meant that the Hong Kong issue had become an international concern.<sup>50</sup> As reported, the press regarded the Act as working to the benefit of American economic interests. By ensuring the autonomous status of Hong Kong after the handover, the Act safeguarded the economic relations between the territory and the United States.

After the passing of the Act, the United States felt more secure in pursuing its interests in the territory. In the hearings in the House and the Senate, the speakers urged to treat Hong Kong as an independent issue, and to have a separate policy toward the territory. While the Act represented the first attempt of the United States to establish its position toward Hong Kong, the congressional debates had actually revealed a larger concern. The consideration was that American interests in the territory were instrumental to the future development of the China market. Thus, the American assertion to handle Hong Kong in its own right was in fact an acknowledgment of the significance of the territory in the Greater China economies. In 1994, a Presidential Business Development Mission went to Beijing, Shanghai, Guangzhou and Hong Kong to explore the trading opportunities. The mission acknowledged the central role of Hong Kong in the modernization effort of the Chinese mainland. The words of President Bill Clinton reflected the importance of Hong Kong to America's interests locally, in China, and in Asia.

As Clinton stated:

It is with great pleasure that I welcome each of the U.S. private sector leaders and distinguished senior government officials joining Secretary of Commerce Ronald H. Brown as members of the Presidential Business Development Mission to China and Hong Kong. Secretary Brown's mission is an important building block in our effort to advance our political, economic, and strategic interests in Asia and the Pacific and to establish lasting commercial relationships with China and Hong Kong. Trade with this strategic region represents both challenges and opportunities for the United States.<sup>51</sup>

Again, the United States emphasized the importance of the China market. The booming Chinese economies seemed to provide American corporations with enormous opportunities. The United States was not going to lose out in this big scramble. As Secretary of Commerce Ronald H. Brown, who headed the expedition, pointed out: "By helping American businesses penetrate one of the world's fastest growing markets, this mission will strengthen the economic bridge between the United States and this increasingly important region."<sup>52</sup> Specifically, he said that the Chinese economic development provided American "growth sectors" with enormous opportunities. They included telecommunications, energy, and transportation. Moreover, he emphasized Hong Kong's contribution to the modernization effort in China. As he said, "China's ambitious modernization plans make it the world's largest market for infrastructure and industrial projects."<sup>53</sup> According to him, "Hong Kong plays a strategic role as China's economic window to the world."<sup>54</sup> More importantly, Brown outlined his policy toward the so-termed "Chinese Economic Area." He stated: "As an important element of our National Export Strategy, the Department of Commerce designated the Chinese Economic Area, which includes China and Hong Kong, as the 'Big Emerging Market' offering the greatest opportunities for expansion of American exports in the next two decades."<sup>55</sup>

The mission included both government representatives and corporate executives. Besides Secretary Brown, West Virginia Governor Gaston Caperton was also present. Within the Department of Commerce, representatives came from the Office of the Secretary. There were other delegates from the International Trade Administration, Asian Development Bank, Export-Import Bank of the United States, National Security Council, National Economic Council, United States Information Agency, and Department of State. The list of representatives is as follows:<sup>56</sup>

1. Secretary of Commerce, Ronald H. Brown
2. Governor of West Virginia, Gaston Caperton
3. Office of the Secretary, Department of Commerce
  - 3.1. Chief of Staff, Robert J. Stein
  - 3.2. General Counsel, Ginger Lew
  - 3.3. Director of the Office of Business Liaison, Melissa A. Moss
  - 3.4. Press Secretary, Office of Public Affairs, Carol L. Hamilton
4. International Trade Administration
  - 4.1. Under Secretary for International Trade, Jeffrey E. Garten
  - 4.2. Deputy Under Secretary for International Trade Policy Development, David J. Rothkopf
  - 4.3. Assistant Secretary and Director General of the U.S. and Foreign Commercial Service, Lauri Fitz-Pegado
  - 4.4. Deputy Assistant Secretary for East Asia and the Pacific, Nancy Linn Patton
  - 4.5. Director, Office of China, Hong Kong, and Mongolia, Donald R. Forest
5. Asian Development Bank
  - 5.1. Executive Director, Linda Tsao Yang
6. Export-Import Bank of the United States
  - 6.1. Director, Maria Lusia M. Haley
  - 6.2. Deputy Vice President for Asia/Middle East Division, Deborah L. Thompson
7. National Security Council and the National Economic Council
  - 7.1. Special Assistant to the President for International Trade and Investment, Robert D. Kyle
8. United States Information Agency
  - 8.1. Director, Office of Policy and Planning, Ernest J. Wilson III
9. Department of State
  - 9.1. Senior Advisor, Bureau of East Asian and Pacific Affairs, Kathleen Harrington

As for representatives from private businesses, they came from twenty-five corporations. These companies included:<sup>57</sup>

1. AST Research, Inc.
2. Atlantic Richfield Company (ARCO)
3. Bell Atlantic Corporation
4. Chrysler Corporation
5. De Leuw, Cather and Company
6. Eastman Kodak Company
7. Entergy Corporation
8. Expert Edge
9. Federal Express
10. Fluor Corporation
11. Foster Wheeler Corporation
12. Grigsby Brandford and Company, Inc.
13. Loral Corporation
14. Olmec Toys
15. Pacific Century Group
16. Pitney Bowes, Inc.
17. Robertson, Stephens & Company
18. Salomon, Inc.
19. SCEcorp
20. Sprint Corporation
21. Systems Integrated
22. Tandem Computers, Inc.
23. TRW, Inc.
24. Wertheim Schroder & Co., Inc.
25. Westinghouse Electric Corporation

## **5. The Hearing of March 1996**

On March 20, 1996, the House Committee on Banking and Financial Services held a hearing on the “Recent Developments in Banking and Finance in the People’s Republic of China, Hong Kong, and Taiwan.” Comparing the Hong Kong and Taiwan situations, Chairman James A. Leach emphasized economics for the former, and politics for the latter.

From the beginning, Leach stressed that the 1992 Act created “the domestic legal authority to treat Hong Kong as a non-sovereign entity distinct from the PRC after 1997, reinforcing the ‘one country, two systems’ principle.”<sup>58</sup> According to him, the United States had “an impressive economic and financial stake” in the territory.<sup>59</sup> Moreover, Hong Kong was the “largest base of American commercial operations in Asia.”<sup>60</sup> Many American firms had their bases and headquarters there, with a number of roughly one thousand. In 1995, the United States invested more than \$10.5 billion in Hong Kong. The latter became America’s twelfth largest trading partner. Hong Kong was also important as a service center for China, and contributed to 70% of foreign investment in the mainland.<sup>61</sup> From the points of view of its economic interests in the territory, as well as the implications for the future trading prospects with China, the United States wanted to maintain the status quo of Hong Kong after the handover. Thus, he said that it was “the hope and expectation of the Congress that Hong Kong will remain one of the world’s most productive and vibrant societies, that it will enjoy the substantial autonomy promised to it by the PRC, and that the fundamental freedoms of its people will be fully protected and respected after 1997.”<sup>62</sup>

As for Taiwan, the concerns were mainly political and strategic. While the hearing included detailed descriptions of the Taiwanese economic performance and potential, the concern was not economics but politics. “In this context,” Leach emphasized, “it is incumbent on this committee to make clear that China’s reckless campaign of coercive diplomacy against the government and people on Taiwan is anything but reassuring.”<sup>63</sup> As he said, “China’s ongoing military exercises and recent missile tests in Taiwan Strait, actions plainly designed to intimidate Taipei, potentially

jeopardize peace and stability in the region.”<sup>64</sup> According to him, “China’s unjustified and dangerous actions can only be of grave concern to the United States.”<sup>65</sup>

Unlike the Taiwan situation, the Hong Kong issue was relatively safe from political rhetoric and considerations. First, the Sino-British Joint Declaration settled the future of Hong Kong. The territory returned to China on July 1, 1997, and this was a historical fact. Regarding Taiwan, its future status had implications not only for the Beijing Government, but for Washington as well. The manner in which China handled the Taiwan question affected the American credibility. Thus, Taiwan was more complicated than the Hong Kong situation. Second, the situation between China and Taiwan raised the possibility of military involvement on both sides. This might lead to a major crisis in the Asian region, and would force the United States to carry out its duty as the world policeman. Third, the future stability of Hong Kong would depend on the successful implementation of the Sino-British Joint Declaration. Since the Joint Declaration was a mini-constitution, the Hong Kong matter had legal foundations. While the United States had announced the support for the Joint Declaration, its future obligation would be only to uphold the document and the spirit of the “one country, two systems” concept.

## **6. The Hearing of July 1996**

On July 18, 1996, the Senate Subcommittee on East Asian and Pacific Affairs, of the Committee on Foreign Relations, held a hearing on “Hong Kong: Countdown to 1997.” Winston Lord, Assistant Secretary of State for East Asian and Pacific Affairs, describes the Hong Kong situation:

First, a few words about what Hong Kong is today. By almost any standard, Hong Kong is one of the world’s most successful societies. With a land area of only 420 square miles and a population of just 6.3 million, Hong Kong is the world’s eighth largest trading economy and a leading international financial center. Its airport is among the world’s top five in both passenger and cargo volume, and its container port is the world’s busiest. It has Asia’s second largest stock market. Over 700 foreign companies maintain regional headquarters in Hong Kong, including 85 of the world’s top 100 banks.

Over the past two decades, the Hong Kong economy has more than quadrupled, and its per capita GDP has tripled to about \$24,000—higher than that of the United Kingdom, Canada, or Australia. Unemployment is only 3.2 percent, regular budget surpluses have produced a secure fiscal environment, and Hong Kong has accumulated over \$58 billion in foreign exchange reserves. Hong Kong is one of the safest cities in the world and is Asia’s most popular travel destination, with a record 10.2 million visitors in 1995. Hong Kong is also a center for

telecommunications technology and has long been a media hub for Asia, with over 700 newspapers and periodicals based there.

But numbers tell only part of the story. The reasons underlying Hong Kong's extraordinary access [success?] are significant as well. Hong Kong has one of the world's most liberal trade and investment regimes; for the second year in a row, the Heritage Foundation rated Hong Kong as the freest economy in the world. Government regulation is transparent and nonburdensome. Taxes are low and the Hong Kong Dollar is freely convertible. The workforce is educated, highly motivated, and industrious, and Hong Kong's pool of enterprising entrepreneurs is legendary.

Other factors are more subtle, but they are no less compelling. Hong Kong people live and work within a trusted framework of law and justice—without economic, social, or political repression. Civil liberties and individual political, cultural, and academic freedoms are protected assiduously. The rule of law is well-established, and Hong Kong courts act as independent arbiters between the government and the governed. And freedom of expression is guaranteed, including the freedom to advocate changes of policy and practice without fear of government retribution.

This combination of favorable government policies and an open way of life has given Hong Kong people the energy, enterprise, and confidence to pursue their own interests within the bounds of the law. Their instinctive belief in these values—combined with their hard work, resourcefulness, and imagination—has transformed Hong Kong into the thriving international entrepot it is today.<sup>66</sup>

## **7. The 1997 Trade Mission to Hong Kong, Singapore, and China**

In a report, the Representative Subcommittee on Trade, of the Committee on Ways and Means, outlined the “Trade Mission to the WTO Ministerial Meeting in Singapore and to Hong Kong and the People’s Republic of China.”<sup>67</sup> The report highlighted the purposes of the mission:

From December 5 through 17, 1996, a delegation of the Subcommittee on Trade of the Committee on Ways and Means visited Hong Kong, Singapore, and the People’s Republic of China to conduct a factfinding mission. The primary purposes of the trip were to attend the first Ministerial Meeting of the World Trade Organization (WTO), held in Singapore during the time of the delegation’s visit, to examine the bilateral relationship with China and explore issues relating to Chinese accession to the WTO, and to meet with Hong Kong Government and business officials to discuss the reversion of Hong Kong to Chinese control in 1997.<sup>68</sup>

In Hong Kong and China, the mission had its specific aims, as the report outlined:

While in Hong Kong, the delegation met with Hong Kong Government officials and business representatives to discuss the reversion of Hong Kong to Chinese control in July 1997. The China leg of the trip provided the delegation an opportunity to discuss the Chinese bid for accession to the WTO and the nature of the bilateral trade relationship between the United States and China including the current conditional most-favored-nation (MFN) status.<sup>69</sup>

## 8. Conclusion

Economic considerations played a significant role in the making of Hong Kong policy. The United States was concerned about the American interests in the territory, the development of the existing enterprises, and the exploitation of upcoming opportunities. The political handover incited the announcement of an *independent* policy toward Hong Kong. Through its declaration, the United States sought to maintain its favorable economic relationship with the territory. The prosperity of Hong Kong concerned not only American interests there, but also the trade in South China, and in the Greater Chinese economies as a whole. In the 1990s, the United States was not the initiator of a Hong Kong policy. It followed the British lead, and upheld the Sino-British Joint Declaration. Unlike the days of the Open Door, the United States did not need to take up a leadership position. It no longer suffered from political constraints and rhetoric. Realism characterized the Hong Kong policy, independent of the considerations with regard to China. The chance of success (or accomplishment) of the current American policy was higher than the rhetorical Open Door policy a century ago.

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<sup>2</sup>*United States-Hong Kong Policy Act of 1992, U.S. Statutes at Large* 106, (1993): 1448-54.

<sup>3</sup>*Ibid.*

<sup>4</sup>*Ibid.*

<sup>5</sup>*United States-Hong Kong Policy Act of 1992*, 1448-49.

<sup>6</sup>*Ibid.*, 1449-50.

<sup>7</sup>*Ibid.*, 1450.

<sup>8</sup>*Ibid.* (italics mine)

<sup>9</sup>*United States-Hong Kong Policy Act of 1992*, 1451.

<sup>10</sup>*Ibid.*, 1452-53.

<sup>11</sup>Ibid., 1453.

<sup>12</sup>Senate Committee on Foreign Relations, *Hong Kong's Reversion to China and Implications for U.S. Policy: Hearing before the Subcommittee on East Asian and Pacific Affairs of the Committee on Foreign Relations*, 102d Cong., 2d sess., 2 April 1992, 1.

<sup>13</sup>Ibid.

<sup>14</sup>Senate Committee on Foreign Relations, *Hong Kong's Reversion to China and Implications for U.S. Policy*, 2.

<sup>15</sup>Ibid., 5.

<sup>16</sup>Ibid., 5-6.

<sup>17</sup>Ibid., 6.

<sup>18</sup>Ibid.

<sup>19</sup>Senate Committee on Foreign Relations, *Hong Kong's Reversion to China and Implications for U.S. Policy*, 7 & 11.

<sup>20</sup>Ibid., 11.

<sup>21</sup>Ibid., 7.

<sup>22</sup>Ibid., 12.

<sup>23</sup>Ibid.

<sup>24</sup>Ibid.

<sup>25</sup>Senate Committee on Foreign Relations, *Hong Kong's Reversion to China and Implications for U.S. Policy*, 15.

<sup>26</sup>Ibid., 24.

<sup>27</sup>Ibid.

<sup>28</sup>Ibid.

<sup>29</sup>Ibid.

<sup>30</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong: Joint Hearings before the Subcommittees on Human Rights and International Organizations, Asian and Pacific Affairs, International Economic Policy and Trade, and International Operations; and the Markups of S. 1731 before the Committee on Foreign Affairs and the Subcommittees on*

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*Human Rights and International Organizations, Asian and Pacific Affairs, and International Economic Policy and Trade*, 102d Cong., 2d sess., 9 April, 7 May, 22 July, 5 August 1992, 4.

<sup>31</sup>Ibid.

<sup>32</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong*, 10.

<sup>33</sup>Ibid.

<sup>34</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong*, 11.

<sup>35</sup>Ibid.

<sup>36</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong*, 18.

<sup>37</sup>Ibid.

<sup>38</sup>Ibid.

<sup>39</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong*, 83.

<sup>40</sup>Ibid., 129.

<sup>41</sup>Ibid.

<sup>42</sup>Ibid.

<sup>43</sup>Ibid.

<sup>44</sup>Ibid.

<sup>45</sup>Ibid

<sup>46</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong*, 165.

<sup>47</sup>Ibid., 166.

<sup>48</sup>Ibid.

<sup>49</sup>House Committee on Foreign Affairs, *U.S. Policy toward Hong Kong*, 189.

<sup>50</sup>Ibid.

<sup>51</sup>A statement of Bill Clinton of August 9, 1994. Read *Presidential Business Development Mission to Beijing, Shanghai, Guangzhou and Hong Kong, 27 August-3 September 1994*.

<sup>52</sup>Ronald Brown, "A Message from the Secretary of Commerce," in *Presidential Business Development Mission to Beijing, Shanghai, Guangzhou and Hong Kong, 27 August-3 September 1994*.

<sup>53</sup>Ibid.

<sup>54</sup>Ibid.

<sup>55</sup>Ibid.

<sup>56</sup>*Presidential Business Development Mission to Beijing, Shanghai, Guangzhou and Hong Kong, 27 August-3 September 1994.*

<sup>57</sup>Ibid.

<sup>58</sup>House Committee on Banking and Financial Services, *Recent Developments in Banking and Finance in the People's Republic of China, Hong Kong, and Taiwan: Hearing before the Committee on Banking and Financial Services*, 104th Cong., 2d sess., 20 March 1996, 1.

<sup>59</sup>Ibid.

<sup>60</sup>Ibid.

<sup>61</sup>House Committee on Banking and Financial Services, *Recent Developments in Banking and Finance in the People's Republic of China, Hong Kong, and Taiwan*, 1-2.

<sup>62</sup>Ibid., 2.

<sup>63</sup>Ibid.

<sup>64</sup>Ibid.

<sup>65</sup>Ibid.

<sup>66</sup>Senate Committee on Foreign Relations, *Hong Kong: Countdown to 1997, Hearing before the Subcommittee on East Asian and Pacific Affairs of the Committee on Foreign Relations*, 104th Cong., 2d sess., 18 July 1996, 7-8.

<sup>67</sup>House Committee on Ways and Means, *Report on Trade Mission to the WTO Ministerial Meeting in Singapore and to Hong Kong and the People's Republic of China*, 105th Cong., 1st sess., 29 January 1997.

<sup>68</sup>Ibid., 1.

<sup>69</sup>Ibid.